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**FINANCIAL COVENANTS IN THE MARKETS FOR PUBLIC  
AND PRIVATE DEBT**

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**ABSTRACT**

The public debt contracts surveyed in Whittred & Zimmer (1986) and Stokes & Tay (1988) were issued between 1962 and 1985 and there has been significant macroeconomic, institutional and regulatory change since that time. We analyse a sample of 36 recently issued Australian public debt contracts and document a considerable change in the “package” of financial covenants used in public debt contracts. The covenant package is now less restrictive and the types of covenants used are more heterogenous. We also survey a sample of 41 recent Australian private debt contracts. These contracts contain a greater number, variety and, collectively, more restrictive set of financial covenants than those public debt contracts we survey, supporting theory which suggests that covenant restrictive and renegotiation-flexible contracts are more suited to borrowers contracting with financial intermediaries in private debt markets. We also note differences in accounting rules associated with financial covenants used in these private debt contracts.

**KEYWORDS:** Financial covenants; Debt covenants; Debt contracts.

**JEL CLASSIFICATION:** M41; G32

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